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War Finance Corporation Act

Guaranty Trust Company
of New York

War Finance Corporation Act

Approved April 5, 1918

Guaranty Trust Company of New York

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Approved, April 5, 1918

FOREWORD

Purpose of the Measure

THE War Finance Corporation Act is purely an emergency measure designed to obtain credits and resources for the operation of industries necessary and contributory to the prosecution of the war. To accomplish this, the law has a twofold purpose, first, to provide facilities whereby war industries may obtain necessary funds for operation, and, second, to restrict unnecessary capital expenditures in other than war industries. The term "war industries" is not limited to those industries turning out the actual munitions of war but, as stated by the Secretary of the Treasury, includes "all those supplying any of the elements of production or distribution in an industrial structure designed to meet the diversified requirements of the war."

War Finance Corporation

To provide funds and credits in aid of war industries, the Act creates the War Finance Corporation, the organization and powers of which,

as defined in the law, will be later explained. This Corporation is so organized as to take care of loans, credits and discounts, by permitting loans to banks, bankers and trust companies, and in certain cases to industries direct for war purposes.

The Secretary of the Treasury in his report to the Finance Committee, states the object of the War Finance Corporation as follows:

"In Europe central banks are permitted to grant to banks and bankers loans upon stocks and bonds upon certain well-defined terms. The Federal reserve act does not provide for these, and the War Finance Corporation is designed as a war emergency to fill this gap. The provisions of the Federal reserve act which permit Federal reserve banks to rediscount and purchase commercial paper and paper secured by the Government's obligations have had the effect of forcing the banks to discriminate against loans on ineligible paper, even where such loans were vitally necessary for war purposes, in favor of loans on commercial paper, even where they represented activities or enterprises not related to the war, and which might well be curtailed during the period of the war."

"The bill contemplates that the War Finance Corporation shall lend money to banks, both National and State, which are making loans to enterprises conducted by persons, firms, or corporations producing materials or supplies, or doing anything else which is necessary for or contributory to the war. If a bank, for instance, should loan money, we will say, to a munitions company, and take the company's six months' note with the company's bond as collateral security, that note would not be eligible for rediscount in the Federal reserve banks; but the War Finance Corporation in such

circumstances could advance to the bank against the note of the munitions company, so secured with that bank's indorsement on it, 75 per cent. of the face of that note."

Capital Issues Committee

For the success of the war, it is important that funds should not be directed to channels not aiding in its prosecution. Such diversion of capital not only lessens the financial resources of our war industries but creates a demand for labor and materials which would otherwise be directed to operations contributory to the war.

Industries which are now necessary or contributory to the conduct of the war, should be first provided for out of funds available for investment. Capital, which in normal times is freely permitted to seek its own investment, should during the war be so directed that the financial requirements of the Government and of our war industries may be taken care of before available capital is invested either in new enterprises, or for the expansion of old enterprises which are not directly or indirectly essential to the prosecution of the war.

By the establishment of the Capital Issues Committee, with authority to pass on issues of securities, unnecessary expenditures of capital may be kept within bounds during the period of the war.

Synopsis of the
War Finance Corporation Act

War Finance Corporation

Organization

The Act creates a corporation known as the "War Finance Corporation," composed of the Secretary of the Treasury and four additional persons who shall act as directors. The life of the Corporation is limited to ten years, but it is prohibited from exercising any of its powers after six months after the termination of the war, except those incident to the liquidation of its assets and the winding up of its affairs. (Sec. 1.)

Until authorized by the President to commence business, the Corporation shall not exercise any of its powers nor perform any acts, except such as are incidental and preliminary to its organization. (Sec. 14.)

Offices

The principal office of the Corporation shall be located in the District of Columbia, but branch offices may be established in any cities of the United States under regulations prescribed by the board of directors. (Sec. 5.)

Board of Directors

The directors are appointed by the President, with the advice and consent of the Senate, to manage the affairs of the Corporation, but any director, as well as any officer or employee, is prohibited from participating in any way in the determination of any question affecting his personal interests or those of any corporation, partnership or association, in which he is directly or indirectly interested. The Secretary of the Treasury shall act as chairman of the board.

All directors and officers must take an oath for the faithful discharge of their duties, and directors must devote their time, not otherwise required by the business of the United States, principally to the business of the Corporation.

The President shall designate two directors to serve for two years and two for four years, but each director appointed thereafter will hold office for a term of four years. Directors are subject to removal by the President. Officers and employees of the United States and directors of Federal reserve banks are eligible for appointment as directors of the Corporation. When a vacancy occurs in the board of directors, the person appointed to fill the vacancy shall serve for the unexpired term. Three members of the board shall constitute a quorum. (Sec. 3.)

The salaries of directors are fixed at $12,000

per annum. If a director receives compensation from the United States for services, he may not receive as salary from the Corporation any amount which would make the total paid him by the United States and the Corporation exceed $12,000. (Sec. 4.)

Capital Stock

The capital stock of the Corporation is fixed at $500,000,000, all to be subscribed by the United States, which subscription, upon approval of the Secretary of the Treasury, shall be subject to call upon the vote of three-fifths of the board of directors, at such time as may be deemed advisable. The sum of $500,000,000, or so much of that amount as may be necessary, is appropriated for making payment upon the subscription. Receipts for payments by the United States for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury, and shall be evidence of stock ownership. (Sec. 2.)

Powers

Administrative Powers

The Corporation has the following administrative powers: to adopt, alter and use a corporate seal; to make contracts; to purchase, lease, hold and dispose of real estate necessary for the prosecution of its business; to sue and be sued in any Federal or state court; to appoint by its board of directors

and fix the compensation of necessary officers, attorneys, employees; to define their duties, require bonds and fix the penalties of such bonds and to dismiss at pleasure such officers, attorneys and employees; and to prescribe, amend and repeal by its board of directors, subject to the approval of the Secretary of the Treasury, by-laws regulating the manner in which its general business may be conducted and the privileges, granted it by law, may be exercised and enjoyed, and prescribing the powers and duties of its officers and agents. (Sec. 6.)

Power to Deal in United States Bonds

The Corporation may subscribe for, acquire and own, buy, sell and deal in bonds and obligations of the United States, issued or converted after September 24, 1917, to such extent as the board of directors, with the approval of the Secretary of the Treasury, may determine. (Sec. 11.)

Advances to Banking Institutions

The Corporation is authorized to make advances for periods not exceeding five years as follows:

(1) to any bank, banker or trust company in the United States, which shall have made, after April 6, 1917, and which shall have outstanding, any loans evidenced by notes, to any person, firm, corporation or association conducting an

established and going business in the United States, whose operations are necessary or contributory to the prosecution of the war. No such advance shall exceed seventy-five per centum of the face value of such loan or loans, and

(2) to any bank, banker or trust company in the United States, which shall have rendered financial assistance to any such person, firm, corporation or association, by the purchase after April 6, 1917, of its bonds or other obligations. No such advance shall exceed seventy-five per centum of the value of such bonds or other obligations at the time of the advance as estimated and determined by the board of directors of the Corporation.

All advances shall be made upon the promissory note of the bank, banker, or trust company, secured by the notes, bonds or other obligations, which are the basis of such advances by the Corporation, together with all the securities which such bank, banker, or trust company may hold as collateral for such notes, bonds, or other obligations.

The Corporation, however, shall have power to make advances (a) up to one hundred per centum of the face value of any loan made by any such bank, banker, or trust company to any person, firm, corporation or association, and (b) up to one hundred per centum of the value, at the time of such advance, of such bonds or other obligations by the purchase of which financial

assistance has been rendered to such person, firm, corporation or association. Every such advance shall be secured as described in the foregoing paragraph and, in addition, by collateral security, of such character as shall be prescribed by the board of directors of the Corporation and of a value, at the time of such advance (as estimated and determined by the board of directors of the Corporation), equal to at least thirty-three per centum of the amount advanced by the Corporation. The Corporation is authorized to require additional security at any time. (Sec. 7.)

Advances to Savings Institutions

The Corporation is empowered to make advances, for periods not exceeding one year, to any savings or other banks, or trust companies, in the United States, receiving savings deposits or to any building and loan association in the United States, on the promissory notes of the borrowing institution, whenever the Corporation deems such advances necessary or contributory to the prosecution of the war, or important in the public interest. Such notes shall be secured by the pledge of securities, prescribed by the board of directors of the Corporation, the value of which at the time of such advance, ascertained by the board of directors of the Corporation, shall equal at least one hundred and thirty-three per centum of the amount advanced.

The rate of interest charged on any such advance shall not be less than one per centum per annum in excess of the rate of discount for ninety-day commercial paper, prevailing at the time of the advance at the Federal reserve bank of the district in which the borrowing institution is located. Such rate in no case shall exceed the average rate receivable by the borrowing institution on its loans and investments made during the six months prior to the date of the advance, except that where the average rate receivable by the borrowing institution is less than the rate of discount for ninety-day commercial paper, the rate of interest on such advance shall be equal to the rate of discount. Additional collateral may be required by the Corporation in its discretion. (Sec. 8.)

Direct Advances to War Industries

In exceptional cases, the Corporation is empowered to make advances directly to any person, firm, corporation or association conducting an established and going business, whose operations are necessary or contributory to the prosecution of the war. Such advances shall be made only for the purpose of conducting such business in the United States and only when the board of directors of the Corporation is of the opinion that such person, firm, corporation or association is

unable to obtain funds upon reasonable terms through banking channels or from the general public. Advances may be made for a period not exceeding five years, subject to terms and regulations prescribed by the board of directors of the Corporation.

In no case shall the aggregate amount of such direct advances exceed, at any one time, an amount equal to twelve and one-half per centum of the sum of (1) the authorized capital stock of the Corporation, plus (2) the aggregate amount of bonds of the Corporation authorized to be outstanding at any one time when the capital stock is fully paid in. Such advances must be secured by adequate security prescribed by the board of directors of a value at the time of such advance, as estimated by the board, equal to (except in case of an advance made to a railroad in the possession and control of the President, for the purpose of making additions, betterments or road extensions to such railroad) at least one hundred and twenty-five per centum of the amount advanced by the Corporation. The Corporation shall have power to require additional security at any time.

The rate of interest charged on any such advance shall not be less than one per centum per annum in excess of the rate of discount for ninety-day commercial paper prevailing at the time of

such advance at the Federal reserve bank of the district in which the borrower is located. (Sec. 9.)

Limitation on Advances

In no case shall the aggregate amount of the advances made to any one person, firm, corporation or association exceed at any one time an amount equal to ten per centum of the authorized capital stock of the Corporation. This provision does not apply in the case of an advance to a railroad in the possession and control of the President, for the purpose of making additions, betterments or road extensions to such railroad. (Sec. 10.)

Power to Issue Bonds

The Corporation is authorized to issue and have outstanding at any one time its bonds in an amount aggregating not more than six times its paid-in capital, such bonds to mature not less than one year nor more than five years from the respective dates of issue. Bonds shall bear interest at such rate or rates as may be determined by the board of directors and may be redeemable before maturity at the option of the Corporation. Such rates shall be subject to the approval of the Secretary of the Treasury. These bonds shall have a first and paramount floating charge on all the assets of the Corporation which shall not at any time mortgage or pledge any of its assets.

They may be issued at not less than par in payment of any advances authorized, or may be offered for public sale or to any individual, firm, corporation or association, at such prices as the board of directors, with the approval of the Secretary of the Treasury, may determine. (Sec. 12.)

Upon terms prescribed by the board of directors, with the approval of the Secretary of the Treasury, at or before issue, any of such bonds may be issued payable in foreign money, or at the option of the respective holders, either in dollars or in foreign money, at such fixed rate of exchange as may be stated in the bonds. To determine the amount of bonds issued payable in foreign money, the dollar equivalent shall be determined by the par of exchange at the date of issue as estimated by the Director of the Mint, and proclaimed by the Secretary of the Treasury in pursuance of the provisions of section twenty-five of the Act entitled "An Act to reduce taxation, to provide revenue for the Government, and for other purposes," approved August 27, 1894. (Sec. 12.)

Liability of United States

The United States shall not be liable for the payment of the bonds or obligations of the Corporation, or the interest thereon, nor for any act or omission of the Corporation. (Sec. 17.)

Discount by Federal Reserve Banks

Federal reserve banks are authorized, subject to the maturity limitations of the Federal Reserve Act and to regulations of the Federal Reserve Board, to discount the direct obligations of member banks secured by bonds of the Corporation and to rediscount eligible paper secured by such bonds and indorsed by a member bank. No discount or rediscount under this section shall be granted at a less interest charge than one per centum per annum above the prevailing rates for eligible commercial paper of corresponding maturity. (Sec. 13.)

Security for Federal Reserve Notes

With the approval of the Federal Reserve Board, a Federal reserve bank may use any obligations or paper so acquired for any purpose for which it is authorized to use obligations or paper secured by bonds or notes of the United States, not bearing the circulation privilege. Whenever Federal reserve notes are issued against the security of such obligations or paper, the Federal Reserve Board may make a special interest charge on such notes, which in the discretion of the Federal Reserve Board need not be applicable to other Federal reserve notes which may from time to time be issued and outstanding.

All provisions of law, in respect to the acquisition by any Federal reserve bank of obligations or paper secured by bonds or notes of the United States and in respect to Federal reserve notes issued against the security of such obligations or paper, not inconsistent with this Act, shall extend, in so far as applicable, to the acquisition of obligations or paper secured by the bonds of the Corporation and to the Federal reserve notes issued against the security of such obligations or paper. (Sec. 13.)

Disposition of Funds

All net earnings of the Corporation, not required for its operation, shall be accumulated as a reserve fund until the Corporation is liquidated. Such funds shall, upon direction of the board of directors, with the approval of the Secretary of the Treasury, be invested in bonds and obligations of the United States issued or converted after September 24, 1917, or upon like direction and approval, may be deposited in member banks of the Federal Reserve System, or in any of the Federal reserve banks, or may be used in the purchase and redemption of any bonds issued by the Corporation. Federal reserve banks are authorized to act as depositaries for and as the fiscal agents of the Corporation in the general performance of the powers conferred. (Sec. 15.)

Taxation

All bonds issued by the Corporation shall be exempt, both as to principal and interest, from all taxation imposed by the United States, its possessions or any state, or by any local taxing authority, except (a) estate or inheritance taxes, (b) graduated additional income taxes, known as surtaxes, and excess profits and war profits taxes, now or hereafter imposed by the United States upon the income or profits of individuals, partnerships, corporations or associations. The interest on an amount of such bonds, the principal of which does not exceed in the aggregate $5,000, owned by an individual, partnership, corporation or association, shall be exempt from income and excess profits and war profits taxes.

The Corporation, its franchises, capital and reserve or surplus, together with income derived therefrom, shall be exempt from all taxation imposed by the United States, any state or any possession of the United States or by any local taxing authority, except that any real property of the Corporation shall be subject to state, county or municipal taxes to the same extent, according to its value, as other real property. (Sec. 16.)

Dissolution of Corporation

Beginning six months after the termination of the war, the date being fixed by proclamation

of the President, the directors of the Corporation shall proceed to liquidate its assets and wind up its affairs, but they may from time to time, prior to such date, sell and dispose of any securities or other property acquired by the Corporation. Any balance remaining after the payment of the debts of the Corporation shall be paid into the Treasury of the United States as miscellaneous receipts and thereupon the Corporation shall be dissolved. (Sec. 15.)

Penalties

False Statement

For obtaining any advance by means of any statement, known to be false, the penalty is a fine of not more than $10,000, or imprisonment for not more than five years, or both.

Overvaluation

For obtaining any advance through wilfull overvaluation of any security, the penalty is a fine of not more than $5,000, or imprisonment for not more than two years, or both.

Forgery and Counterfeiting

For forging, altering or counterfeiting any bond, coupon or paper issued by the Corporation or for passing or attempting to pass the same, knowing it to be forged, altered or counterfeited, the

penalty is a fine of not more than $10,000, or imprisonment for not more than five years, or both.

Embezzlement

The penalty for the embezzlement of funds of the Corporation, or the making of any false entry in the books of the Corporation, or the drawing or assigning of any note, bond, mortgage or draft of the Corporation, with intent to defraud, is a fine of not more than $10,000, or imprisonment for not more than five years, or both. (Sec. 18.)

Detection of Violations

The Secretary of the Treasury is authorized to direct and use the Secret Service Division of the Treasury Department to detect, arrest and deliver into the custody of the United States marshal, having jurisdiction, any person committing any of the foregoing offenses. (Sec. 18.)

Reports of the Corporation

The Corporation shall file quarterly reports with the Secretary of the Senate and with the Clerk of the House of Representatives stating, as of the first day of each month of the quarter just ended,

(1) the total amount of capital paid in,
(2) the total amount of bonds issued,
(3) the total amount of bonds outstanding,

(4) the total amount of advances made,

(5) a list of the classes and amount of securities taken,

(6) the total amount of advances outstanding, and

(7) such other information as may be hereafter required by either House of Congress.

The Corporation shall also make a report to Congress on the first day of each regular session, including a detailed statement of receipts and expenditures. (Sec. 19.)

Indebtedness of National Banks

The restriction imposed by Section 5202, Revised Statutes of the United States, providing that, except in certain specified instances, a national bank shall at no time be indebted or in any way liable to an amount exceeding the amount of its capital stock, at such time actually paid in and remaining undiminished by losses or otherwise, is limited to exclude liabilities incurred under the provisions of the War Finance Corporation Act. (Sec. 20.)

Capital Issues Committee

Membership and Organization

A Committee is created known as the "Capital Issues Committee," composed of seven members appointed by the President by and with the advice and consent of the Senate, at least three of whom must be members of the Federal Reserve Board. Officers and employees of the United States and directors of Federal reserve banks are eligible for appointment on the Committee. Four members shall constitute a quorum for the transaction of business. The President shall designate one member as chairman but any subsequent vacancy in the chairmanship shall be filled by the Committee. Members of the Committee, as well as its officers, attorneys, agents or employees, are disqualified from all participation in the determination of any question affecting their personal interests or those of any corporation, partnership or association in which they are in any way interested.

The terms of office of the several members of the Committee shall be determined by the President and the compensation of those who are not members of the Federal Reserve Board shall be $7,500 per annum. If a member receives any other compensation from an office under the United States, the amount received shall be deducted from his salary and if such other com-

pensation is $7,500 or more, he shall receive no salary as a member of the Committee. (Sec. 200.)

Powers of Committee

The Committee may, under rules and regulations to be prescribed by it, investigate, pass upon, and determine whether it is compatible with the national interest that there should be sold, or offered for sale or for subscription, any securities, hereafter issued by any person, firm, corporation or association, the total face value of which, and any other securities issued by the same person, firm, corporation or association since the passage of this Act, is in excess of $100,000. Shares of stock of any corporation or association without nominal or par value, shall, for the purpose of this section, be deemed to be of the par value of $100 each. Any securities, which, upon the date of the passage of this Act, are in the possession or control of the corporation, association or obligor issuing the same, shall be deemed to have been issued after the passage of this Act. (Sec. 203.)

No Approval of Validity of Issue

Nothing done or omitted by the Committee shall be construed as carrying the approval of the Committee or of the United States of the legality, validity, worth, or security of any securities. (Sec 203.)

Issues not Subject to Investigation

The Committee is not authorized to pass upon

(1) Any borrowing by any person, firm, corporation or association in the ordinary course of business, as distinguished from borrowing for capital purposes,

(2) The renewing or refunding of indebtedness existing at the time of the passage of this Act,

(3) The resale of any securities, the sale or offering of which the Committee has determined to be compatible with the national interest,

(4) Any securities issued by any railroad corporation, the property of which may be in the possession and control of the President, or

(5) Bonds issued by the War Finance Corporation. (Sec. 203.)

Employees

The Committee may employ and fix the compensation of any officers, attorneys, agents and other employees deemed necessary to conduct its business, who shall be appointed without regard to the provisions of the Civil Service Act of the United States or any rules or regulations made in pursuance thereof. The compensation of any officer, attorney or employee shall not exceed that received by persons performing services of similar character under the Federal Reserve Board. (Sec. 201.)

Expenses

All expenses of the Committee, such as for transportation incurred by members or officers, attorneys or employees under its orders in making investigation, or upon official business in any other places than at their respective headquarters, shall be allowed and paid on the presentation of itemized vouchers approved by the chairman. (Sec. 202.)

Office of Committee

The principal office shall be in the District of Columbia, but it may meet and exercise all its powers at any place. Any inquiry, necessary to the duties of the Committee, may be prosecuted by one or more of its members, or by such agents as it may designate, in any part of the United States.

The Committee may rent suitable offices and purchase such furniture, equipment and supplies as may be necessary, but shall not expend more than $10,000 annually for offices in the District of Columbia.

The sum of $200,000 is appropriated for the purpose of defraying the expenses of the establishment and maintenance of the Committee, including the payment of the salaries and rents authorized. (Sec. 204.)

Report to Congress

The Committee shall make a report to Congress on the first day of each regular session, including a detailed statement of the receipts and disbursements and also including the names of all the officers and employees and the salaries of each. (Sec. 205.)

Termination of Duties of the Committee

These provisions shall continue in effect until, but not after, the expiration of six months after the termination of the war, the date being determined by a proclamation of the President. The President may, however, at any time by proclamation declare that the provisions of this title are no longer necessary and thereupon it shall cease to be in effect. (Sec. 206.)

Miscellaneous Provisions

Penalties

Except where the penalty is otherwise provided for in this Act, the wilfull violation of any of the provisions hereof, or participation in such violation, shall be punishable by a fine of not more than $10,000, or imprisonment for not more than one year, or both. (Sec. 300.)

Stamp Tax

Stamp taxes shall not be required or imposed upon a promissory note secured by pledge of bonds or obligations of the United States, issued after April 24, 1917, or secured by the pledge of a promissory note which itself is secured by the pledge of such bonds or obligations, but in either case the par value of such bonds or obligations shall at least equal the amount of such note. (Sec. 301.)

Provisions Deemed Separable

If any clause, sentence, paragraph or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, or in case any such court shall adjudge to be invalid any of its provisions in respect to any class of securities, such judgment shall not affect, impair or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, part, or subject matter of this Act, directly involved in the controversy in which such judgment shall have been rendered. (Sec. 302.)

Securities Defined

The term "Securities," as used in this Act, includes stocks, shares of stocks, bonds, debentures, notes, certificates of indebtedness and other obligations. (Sec. 303.)

Repeal Provisions

The right to amend, alter or repeal this Act is expressly reserved (Sec. 304), and all provisions of any other act inconsistent herewith are repealed. (Sec. 305.)

War Finance Corporation Act

Approved April 5, 1918

AN ACT

To provide further for the national security and defense, and, for the purpose of assisting in the prosecution of the war, to provide credits for industries and enterprises in the United States necessary or contributory to the prosecution of the war, and to supervise the issuance of securities, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Title I.—War Finance Corporation

Organization of Corporation

That the Secretary of the Treasury and four additional persons (who shall be the directors first appointed as hereinafter provided), are hereby created a body corporate and politic in deed and in law by the name, style, and title of the "War Finance Corporation" (herein called the Corporation), and shall have succession for a period of ten years: *Provided*, That in no event shall the Corporation exercise any of the powers conferred by this Act, except such as are incidental to the liquidation of its assets and the winding up of its affairs, after six months after the termination of the war, the date of such termination to be fixed by proclamation of the President of the United States.

Capital Stock

SEC. 2. That the capital stock of the Corporation shall be $500,000,000, all of which shall be subscribed by the United States of America, and such subscription shall be subject to call upon the vote of three-fifths of

the board of directors of the Corporation, with the approval of the Secretary of the Treasury, at such time or times as may be deemed advisable; and there is hereby appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $500,000,000, or so much thereof as may be necessary for the purpose of making payment upon such subscription when and as called. Receipts for payments by the United States of America for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury, and shall be evidence of stock ownership.

Management

SEC. 3. That the management of the Corporation shall be vested in a board of directors, consisting of the Secretary of the Treasury, who shall be chairman of the board, and four other persons, to be appointed by the President of the United States, by and with the advice and consent of the Senate. No director, officer, attorney, agent, or employee of the Corporation shall in any manner, directly or indirectly, participate in the determination of any question affecting his personal interests, or the interests of any corporation, partnership, or association, in which he is directly or indirectly interested; and each director shall devote his time, not otherwise required by the business of the United States, principally to the business of the Corporation. Before entering upon his duties, each of the four directors so appointed, and each officer, shall take an oath faithfully to discharge the duties of his office. Nothing contained in this or any other Act shall be construed to prevent the appointment as a director of the Corporation of any officer or employee under the United States or of a director of a Federal reserve bank.

Board of Directors

Terms of Office

Of the four directors so appointed, the President of the United States shall designate two to serve for two years, and two for four years; and thereafter each direc-

tor so appointed shall serve for four years. Whenever a vacancy shall occur among the directors so appointed, the person appointed director to fill any such vacancy shall hold office for the unexpired term of the member whose place he is selected to fill. Any director shall be subject to removal by the President of the United States. Three members of the board of directors shall constitute a quorum for the transaction of business.

Salaries of Directors

SEC. 4. That the four directors of the Corporation appointed as hereinbefore provided shall receive annual salaries, payable monthly, of $12,000. Any director receiving from the United States any salary or compensation for services shall not receive as salary from the Corporation any amount which, together with any salary or compensation received from the United States, would make the total amount paid to him by the United States and by the Corporation exceed $12,000.

Office of Corporation

SEC. 5. That the principal office of the Corporation shall be located in the District of Columbia, but there may be established agencies or branch offices in any city or cities of the United States under rules and regulations prescribed by the board of directors.

Administrative Powers

SEC. 6. That the Corporation shall be empowered and authorized to adopt, alter, and use a corporate seal; to make contracts; to purchase or lease and hold or dispose of such real estate as may be necessary for the prosecution of its business; to sue and be sued; to complain and defend in any court of competent jurisdiction, State or Federal; to appoint, by its board of directors, and fix the compensation of such officers, employees, attorneys, and agents as are necessary for the transaction of the business of the Corporation, to define their duties, require bonds of them and fix the penalties thereof, and to dismiss at pleasure such officers, employees, attorneys, and agents; and to prescribe, amend,

and repeal, by its board of directors, subject to the approval of the Secretary of the Treasury, by-laws regulating the manner in which its general business may be conducted and the privileges granted to it by law may be exercised and enjoyed, and prescribing the powers and duties of its officers and agents.

SEC. 7. That the Corporation shall be empowered and authorized to make advances, upon such terms, not inconsistent herewith, as it may prescribe, for periods not exceeding five years from the respective dates of such advances:

Advances to Banking Institutions

(1) To any bank, banker, or trust company, in the United States, which shall have made after April sixth, nineteen hundred and seventeen, and which shall have outstanding, any loan or loans to any person, firm, corporation, or association, conducting an established and going business in the United States, whose operations shall be necessary or contributory to the prosecution of the war, and evidenced by a note or notes, but no such advance shall exceed seventy-five per centum of the face value of such loan or loans; and

(2) To any bank, banker, or trust company, in the United States, which shall have rendered financial assistance, directly or indirectly, to any such person, firm, corporation, or association by the purchase after April sixth, ninteen hundred and seventeen, of its bonds or other obligations, but no such advance shall exceed seventy-five per centum of the value of such bonds or other obligations at the time of such advance as estimated and determined by the board of directors of the Corporation.

Security for Advances

All advances shall be made upon the promissory note or notes of such bank, banker, or trust company, secured by the notes, bonds, or other obligations, which are the basis of any such advance by the Corporation, together with all the securities, if any, which such

bank, banker, or trust company may hold as collateral for such notes, bonds, or other obligations.

Additional Security for 100% Advances

The Corporation shall, however, have power to make advances (a) up to one hundred per centum of the face value of any such loan made by any such bank, banker, or trust company to any such person, firm, corporation, or association, and (b) up to one hundred per centum of the value at the time of any such advance (as estimated and determined by the board of directors of the Corporation) of such bonds or other obligations by the purchase of which financial assistance shall have been rendered to such person, firm, corporation, or association: *Provided*, That every such advance shall be secured in the manner described in the preceding part of this section, and in addition thereto by collateral security, to be furnished by the bank, banker, or trust company, of such character as shall be prescribed by the board of directors, of a value, at the time of such advance (as estimated and determined by the board of directors of the Corporation), equal to at least thirty three per centum of the amount advanced by the Corporation. The Corporation shall retain power to require additional security at any time.

Advances to Savings Institutions

SEC. 8. That the Corporation shall be empowered and authorized to make advances from time to time, upon such terms, not inconsistent herewith, as it may prescribe, for periods not exceeding one year, to any savings bank, banking institution or trust company, in the United States, which receives savings deposits, or to any building and loan association in the United States, on the promissory note or notes of the borrowing institution, whenever the Corporation shall deem such advances to be necessary or contributory to the prosecution of the war or important in the public interest: *Provided*, That such note or notes shall be secured by

the pledge of securities of such character as shall be prescribed by the board of directors of the Corporation, the value of which, at the time of such advance (as estimated and determined by the board of directors of the Corporation) shall be equal in amount to at least one hundred and thirty-three per centum of the amount of such advance. The rate of interest charged on any such advance shall not be less than one per centum per annum in excess of the rate of discount for ninety-day commercial paper prevailing at the time of such advance at the Federal reserve bank of the district in which the borrowing institution is located, but such rate of interest shall in no case be greater than the average rate receivable by the borrowing institution on its loans and investments made during the six months prior to the date of the advance, except that where the average rate so receivable by the borrowing institution is less than such rate of discount for ninety-day commercial paper the rate of interest on such advance shall be equal to such rate of discount. The Corporation shall retain power to require additional security at any time.

Direct Advances to Persons, Firms and Corporations

SEC. 9. That the Corporation shall be empowered and authorized, in exceptional cases, to make advances directly to any person, firm, corporation, or association, conducting an established and going business in the United States, whose operations shall be necessary or contributory to the prosecution of the war (but only for the purpose of conducting such business in the United States and only when in the opinion of the board of directors of the Corporation such person, firm, corporation, or association is unable to obtain funds upon reasonable terms through banking channels or from the general public), for periods not exceeding five years from the respective dates of such advances, upon such

terms, and subject to such rules and regulations as may be prescribed by the board of directors of the Corporation. In no case shall the aggregate amount of the advances made under this section exceed at any one time an amount equal to twelve and one-half per centum of the sum of (1) the authorized capital stock of the Corporation plus (2) the aggregate amount of bonds of the Corporation authorized to be outstanding at any one time when the capital stock is fully paid in. Every such advance shall be secured by adequate security of such character as shall be prescribed by the board of directors of a value at the time of such advance (as estimated and determined by the board of directors), equal to (except in case of an advance made to a railroad in the possession and control of the President, for the purpose of making additions, betterments or road extensions to such railroad) at least one hundred and twenty-five per centum of the amount advanced by the Corporation. The Corporation shall retain power to require additional security at any time. The rate of interest charged on any such advance shall not be less than one per centum per annum in excess of the rate of discount for ninety-day commercial paper prevailing at the time of such advance at the Federal reserve bank of the district in which the borrower is located.

Limitation on Advances

SEC. 10. That in no case shall the aggregate amount of the advances made under this title to any one person, firm, corporation, or association exceed at any one time an amount equal to ten per centum of the authorized capital stock of the Corporation, but this section shall not apply in the case of an advance made to a railroad in the possession and control of the President, for the purpose of making additions, betterments or road extensions to such railroad.

Power to Deal in Securities of United States

SEC. 11. That the Corporation shall be empowered and authorized to subscribe for, acquire, and own, buy, sell, and deal in bonds and obligations of the United States issued or converted after September twenty-fourth, nineteen hundred and seventeen, to such extent as the board of directors, with the approval of the Secretary of the Treasury, may from time to time determine.

Issue of Bonds

SEC. 12. That the Corporation shall be empowered and authorized to issue and have outstanding at any one time its bonds in an amount aggregating not more than six times its paid-in capital, such bonds to mature not less than one year nor more than five years from the respective dates of issue, and to bear such rate or rates of interest, and may be redeemable before maturity at the option of the Corporation, as may be determined by the board of directors, but such rate or rates of interest shall be subject to the approval of the Secretary of the Treasury. Such bonds shall have a first and paramount floating charge on all the assets of the Corporation, and the Corporation shall not at any time mortgage or pledge any of its assets. Such bonds may be issued at not less than par in payment of any advances authorized by this title, or may be offered for sale publicly or to any individual, firm, corporation, or association, at such price or prices as the board of directors, with the approval of the Secretary of the Treasury, may determine.

Bonds May be Payable in Foreign Money

Upon such terms not inconsistent herewith as may be determined from time to time by the board of directors, with the approval of the Secretary of the Treasury, at or before the issue thereof, any of such bonds may be issued payable in any foreign money or foreign moneys, or issued payable at the option of the respective holders thereof either in dollars or in any foreign money or

foreign moneys at such fixed rate of exchange as may be stated in any such bonds. For the purpose of determining the amount of bonds issued payable in any foreign money or foreign moneys the dollar equivalent shall be determined by the par of exchange at the date of the issue thereof, as estimated by the Director of the Mint and proclaimed by the Secretary of the Treasury in pursuance of the provisions of Section 25 of the Act entitled "An Act to reduce taxation, to provide revenue for the Government, and for other purposes," approved August twenty-seventh, eighteen hundred and ninety-four.

Discount by Federal Reserve Banks

SEC. 13. That the Federal reserve banks shall be authorized, subject to the maturity limitations of the Federal reserve Act and to regulations of the Federal Reserve Board, to discount the direct obligations of member banks secured by such bonds of the Corporation and to rediscount eligible paper secured by such bonds and indorsed by a member bank. No discount or rediscount under this section shall be granted at a less interest charge than one per centum per annum above the prevailing rates for eligible commercial paper of corresponding maturity.

Issue of Federal Reserve Notes

Any Federal reserve bank may, with the approval of the Federal Reserve Board, use any obligation or paper so acquired for any purpose for which it is authorized to use obligations or paper secured by bonds or notes of the United States not bearing the circulation privilege: *Provided, however,* That whenever Federal reserve notes are issued against the security of such obligations or paper the Federal Reserve Board may make a special interest charge on such notes, which, in the discretion of the Federal Reserve Board, need not be applicable to other Federal reserve notes which may from time to time be issued and outstanding. All provisions of law, not inconsistent herewith, in respect

to the acquisition by any Federal reserve bank of obligations or paper secured by such bonds or notes of the United States, and in respect to Federal reserve notes issued against the security of such obligations or paper, shall extend, in so far as applicable, to the acquisition of obligations or paper secured by the bonds of the Corporation and to the Federal reserve notes issued against the security of such obligations or paper.

President's Authorization to Begin Business

SEC. 14. That the Corporation shall not exercise any of the powers granted by this title or perform any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the President of the United States to commence business under the provisions of this title.

Earnings of Corporation

SEC. 15. That all net earnings of the Corporation not required for its operations shall be accumulated as a reserve fund until such time as the Corporation liquidates under the terms of this title. Such reserve fund shall, upon the direction of the board of directors, with the approval of the Secretary of the Treasury, be invested in bonds and obligations of the United States, issued or converted after September twenty-fourth, nineteen hundred and seventeen, or upon like direction and approval may be deposited in member banks of the Federal Reserve System, or in any of the Federal reserve banks, or be used from time to time, as well as any other funds of the Corporation, in the purchase or redemption of any bonds issued by the Corporation. The Federal reserve banks are hereby authorized to act as depositaries for and as fiscal agents of the Corporation in the general performance of the powers conferred by this title. Beginning six months after the termination of the war, the date of such termination to be fixed by a proclamation of the President of the United States, the directors of the Corpora-

tion shall proceed to liquidate its assets and to wind up its affairs, but the directors of the Corporation, in their discretion, may, from time to time, prior to such date, sell and dispose of any securities or other property acquired by the Corporation. Any balance remaining after the payment of all its debts shall be paid into the Treasury of the United States as miscellaneous receipts, and thereupon the Corporation shall be dissolved.

Taxes on Bonds

SEC. 16. That any and all bonds issued by the Corporation shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, corporations, or associations. The interest on an amount of such bonds the principal of which does not exceed in the aggregate $5,000, owned by any individual, partnership, corporation, or association, shall be exempt from the taxes referred to in clause (b). The Corporation, including its franchise and the capital and reserve or surplus thereof, and the income derived therefrom, shall be exempt from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except that any real property of the Corporation shall be subject to State, county, or municipal taxes to the same extent, according to its value, as other real property is taxed.

Taxes on Corporation

No Liability of United States

SEC. 17. That the United States shall not be liable for the payment of any bond or other obligation or

the interest thereon issued or incurred by the Corporation, nor shall it incur any liability in respect of any act or omission of the Corporation.

Penalties

SEC. 18. That whoever (1) makes any statement, knowing it to be false, for the purpose of obtaining for himself or for any other person, firm, corporation, or association any advance under this title, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both. Whoever wilfully overvalues any security by which any such advance is secured, shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years, or both.

False Statement

Over-Valuation

Whoever (1) falsely makes, forges, or counterfeits any bond, coupon, or paper in imitation of or purporting to be in imitation of a bond or coupon issued by the Corporation; or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited bond, coupon, or paper purporting to be issued by the Corporation, knowing the same to be falsely made, forged, or counterfeited; or (3) falsely alters any such bond, coupon, or paper; or (4) passes, utters, or publishes as true any falsely altered or spurious bond, coupon, or paper issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

Forgery and Counterfeiting

Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, or wilfully misapplies any moneys, funds, or credits thereof, or (2) with intent to defraud the Corporation or any other company, body politic, or corporate, or any individual, or to deceive any officer of the Corporation, (a) makes any false entry in any book, report, or statement of

Embezzlement

the Corporation, or (b) without authority from the directors draws any order or assigns any note, bond, draft, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than $10,000, or by imprisonment for not more than five years, or both.

Use of Secret Service

The Secretary of the Treasury is hereby authorized to direct and use the Secret Service Division of the Treasury Department to detect, arrest, and deliver into custody of the United States Marshal having jurisdiction any person committing any of the offenses punishable under this section.

Reports of Corporation

SEC. 19. That the Corporation shall file quarterly reports with the Secretary of the Senate and with the Clerk of the House of Representatives, stating as of the first day of each month of the quarter just ended (1) the total amount of capital paid in, (2) the total amount of bonds issued, (3) the total amount of bonds outstanding, (4) the total amount of advances made under each of sections 7, 8, and 9, (5) a list of the classes and amount of securities taken under each of such sections, (6) the total amount of advances outstanding under each of sections seven, eight, and nine, and (7) such other information as may be hereafter required by either House of Congress.

The Corporation shall make a report to Congress on the first day of each regular session, including a detailed statement of receipts and expenditures.

Indebtedness of National Banks

SEC. 20. Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: "Sec. 5202. No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

"First. Notes of circulation.

"Second. Moneys deposited with or collected by the association.

"Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

"Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

"Fifth. Liabilities incurred under the provisions of the Federal reserve act.

"Sixth. Liabilities incurred under the provisions of the War Finance Corporation Act."

Title II.—Capital Issues Committee

Organization and Membership

SEC. 200. That there is hereby created a committee to be known as the "Capital Issues Committee," hereinafter called the Committee, and to be composed of seven members to be appointed by the President of the United States, by and with the advice and consent of the Senate. At least three of the members shall be members of the Federal Reserve Board.

No member, officer, attorney, agent, or employee of the Committee shall in any manner, directly or indirectly, participate in the determination of any question affecting his personal interests, or the interest of any corporation, partnership, or association in which he is directly or indirectly interested. Before entering upon his duties, each member and officer shall take an oath faithfully to discharge the duties of his office. Nothing contained in this or any other Act shall be construed to prevent the appointment as a member of the Committee, of any officer or employee under the United States or of a director of a Federal reserve bank.

Term of Office and Salaries of Members

The terms during which the several members of the Committee shall respectively hold office shall be determined by the President of the United States, and the compensation of the several members of the Committee who are not members of the Federal Reserve Board shall be $7,500 per annum, payable monthly, but if any such member receives any other compensation from any office or employment under the United States the amount so received shall be deducted from such salary, and if such other compensation is $7,500 or more, such member shall receive no salary as a member of the Committee. Any member shall be subject to removal by the President of the United States. The President shall designate one of the members as chairman, but any subsequent vacancy in the chairmanship shall be filled by the Committee. Four members of the Committee shall constitute a quorum for the transaction of business.

Employees

SEC. 201. That the Committee may employ and fix the compensation of such officers, attorneys, agents, and other employees as may be deemed necessary to conduct its business, who shall be appointed without regard to the provisions of the Act entitled "An Act to regulate and improve the civil service of the United States," approved January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto or any rules or regulations made in pursuance thereof. No such officer, attorney, agent, or employee shall receive more compensation than persons performing services of like or similar character under the Federal Reserve Board.

Expenses

SEC. 202. That all the expenses of the Committee, including all necessary expenses for transportation incurred by the members or by its officers, attorneys,

agents, or employees under its orders in making an investigation or upon official business in any other places than at their respective headquarters, shall be allowed and paid on the presentation of itemized vouchers therefor approved by the chairman.

The Committee may rent suitable offices for its use, and purchase such furniture, equipment, and supplies as may be necessary, but shall not expend more than $10,000 annually for offices in the District of Columbia.

Office

The principal office of the Committee shall be in the District of Columbia, but it may meet and exercise all its powers at any other place. The Committee may, by one or more of its members, or by such agents as it may designate, prosecute any inquiry necessary to its duties in any part of the United States.

Authorized to Pass Upon Issues of Securities

SEC. 203. That the Committee may, under rules and regulations to be prescribed by it from time to time, investigate, pass upon, and determine whether it is compatible with the national interest that there should be sold or offered for sale or for subscription any issue, or any part of any issue, of securities hereafter issued by any person, firm, corporation, or association, the total or aggregate par or face value of which issue and any other securities issued by the same person, firm, corporation, or association since the passage of this Act is in excess of $100,000. Shares of stock of any corporation or association without nominal or par value shall for the purpose of this section be deemed to be of the par value of $100 each. Any securities which upon the date of the passage of this Act are in the possession or control of the corporation, association, or obligor issuing the same shall be deemed to have been issued after the passage of this Act within the meaning hereof.

Loans Not to be Passed Upon

Nothing in this title shall be construed to authorize such Committee to pass upon (1) any borrowing by any person, firm, corporation, or association in the ordinary course of business as distinguished from borrowing for capital purposes, (2) the renewing or refunding of indebtedness existing at the time of the passage of this Act, (3) the resale of any securities the sale or offering of which the Committee has determined to be compatible with the national interest, (4) any securities issued by any railroad corporation the property of which may be in the possession and control of the President of the United States, or (5) any bonds issued by the War Finance Corporation.

No Approval of Legality

Nothing done or omitted by the Committee hereunder shall be construed as carrying the approval of the Committee or of the United States of the legality, validity, worth, or security of any securities.

Appropriation

SEC. 204. That there is hereby appropriated out of any money in the Treasury not otherwise appropriated, for the remainder of the fiscal year ending June thirtieth, nineteen hundred and eighteen, and the fiscal year ending June thirtieth, nineteen hundred and nineteen, the sum of $200,000 for the purpose of defraying the expenses of the establishment and maintenance of the Committee, including the payment of the salaries and rents herein authorized.

Report to Congress

SEC. 205. That the Committee shall make a report to Congress on the first day of each regular session, including a detailed statement of receipts and expenditures, and also including the names of all officers and employees and the salaries paid to each.

Duration of Committee

SEC. 206. That this title shall continue in effect until, but not after, the expiration of six months after the termination of the war, the date of such termination to be determined by a proclamation of the President

of the United States, but the President may at any time by proclamation declare that this title is no longer necessary, and thereupon it shall cease to be in effect.

Title III.—Miscellaneous

Penalty

SEC. 300. That whoever wilfully violates any of the provisions of this Act, except where a different penalty is provided in this Act, shall, upon conviction in any court of the United States of competent jurisdiction, be fined not more than $10,000 or imprisoned for not more than one year, or both; and whoever knowingly participates in any such violation, except where a different penalty is provided in this Act, shall be punished by a like fine or imprisonment, or both.

Stamp Taxes

SEC. 301. That no stamp tax shall be required or imposed upon a promissory note secured by the pledge of bonds or obligations of the United States issued after April twenty-fourth, nineteen hundred and seventeen, or secured by the pledge of a promissory note which itself is secured by the pledge of such bonds or obligations: *Provided*, That in either case the par value of such bonds or obligations shall equal the amount of such note.

Provisions Deemed Separable

SEC. 302. That if any clause, sentence, paragraph, or part of this Act shall, for any reason, be adjudged by any court of competent jurisdiction to be invalid, or, in case any court of competent jurisdiction shall adjudge to be invalid any provisions hereof in respect of any class or classes of securities, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, part, or subject matter of this Act directly involved in the controversy in which judgment shall have been rendered.

Securities Defined

SEC. 303. That the term "securities," as used in this Act, includes stocks, shares of stock, bonds, debentures, notes, certificates of indebtedness, and other obligations.

Right to Appeal

SEC. 304. That the right to amend, alter, or repeal this Act is hereby expressly reserved.

Short Title

SEC. 305. That the short title of this Act shall be the "War Finance Corporation Act."

Other Acts Repealed

SEC. 306. That all provisions of any Act or Acts inconsistent with the provisions of this Act are hereby repealed.

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